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LIES, DAMNED LIES AND INFLATION CONTROLS

by Edna Lonigan

Freedom is hard, uncompromising, even cruel. It demands the facing of the facts of life with real courage and the meeting of problems without recourse to the dream life of fancy. That kind of escapism is reserved for the managerial elite, to whom truth is what they wish it to be or what pleases their passion for power. Clear words, with precise meanings, hard money that can be counted and chartered accounting, are the necessary conditions of a free Society; all three are abandoned, as unwarranted handicaps, by those who would fashion society to their personal ambition.

An instance of this conflict between reality and fantasy is the current controversy between the Federal Reserve Board and the Secretary of the Treasury over "inflation controls". The issue is clear: Shall the FRB continue to "support" the value of government paper by buying in what the public will not absorb; or shall the true value of this paper be ascertained by permitting it to find its own level in the open market?

The FRB is in favor of the second course, which is realistic, while the Treasury, anxious to hide the fact that the market value of its bonds is below their advertised value, urges the continuance of the present "support" scheme. The FRB contends that the "support" price is decidedly inflationary (for reasons which will be explained), while the Secretary of the Treasury, Mr. Snyder, insists that the inflationary effects of "support" can be overcome by police controls. In line with political reasoning and considerations, Mr. Snyder ignores the impossibility (demonstrated in every country in which controls have been tried) of eliminating "black" market operations.

II

Why does Mr. Snyder hang on to the fiction of "supported" bonds? Because he knows, and the FRB has informed him of the fact, that to throw government bonds on the open market would necessitate -- if their price is to be maintained -- a higher interest rate. The Government would have to compete with other securities offered, securities which not only yield a higher return but promise an appreciation in market value; the face value of the bonds stays put. The so-called "stability"

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of government bond prices is maintained because the Government does not have to meet the "lie detector test" of the free market. It does not have to pay a price that fits the growing risk.

However, if the Government raises its interest rate the bubble of a low cost of financing its borrowings will be burst. Not only will the true cost of servicing the national debt be exposed, but the theory that interest rates can be arbitrarily fixed by government "economists" will get its come-uppance. The managerial elite cannot afford to face the facts of life.

On the other hand, if the FRB is compelled to continue the policy of buying all the bonds the public will not buy, it can do so only by increasing the volume of credit money -- which is, in actual practice, even more inflationary than the printing of bogus money. The FRB has no pool of money with which to buy bonds. For every bond that falls into the hands of the Federal Reserve System, a credit is issued, either to the Government or to the bank which sent it in for discount. That credit becomes purchasing power. That purchasing power shows itself in the market place; the more purchasing power the higher the price of milk, machines and monkeyshines. Not all the controls ever thought up by the managerial elite can prevent it. Credit money or printing-press money, the cost of living must go up.

The issue between Mr. Snyder and the FRB comes down to this: Shall the cost of government be hidden behind a "low" interest rate, while the cost of living rises, or shall the housewife be protected by curtailment of the power of the Government to increase indefinitely issuance of credit money? To put it another way, shall the true cost to society of government wastage be exposed to view?

III

Inflation during war is inevitable. It results from the depletion of the nation's annual output. A war is not fought with money, it is fought with wheat, lumber, steel -- with things that, were they to come to market, would hold prices down. The economic effect of war is the same as that of a drought, or of a conflagration consuming so many factories, department stores and warehouses in each town in the country.

The workers who produce what is destroyed in war cannot be paid in goods, simply because the consumers' goods have not been produced. In time of war, or the preparation for it, everybody's standard of living goes down. It must. "Inflation controls" can do nothing about it. There is simply not enough to go around.

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The problem of a war economy is to get people to work harder and to live on less. A war economy is obviously and necessarily the opposite of a free economy; but, during previous wars, when the ideal of a free society still hung high in American life, the problem mentioned above was met in an honest and straightforward way: wages, in terms of money, were increased even as the purchasing power of money decreased, but there was the expectation that the money would harden as soon as the crisis was over. This expectation was based on the fact that the vast technological development necessitated by war production would be turned to the production of consumable goods after the war, and the abundance of such goods would lower prices. (For, during wartime despite the vast destruction of wealth, there is one great economic gain: war brings a revolutionary upturn in the arts of industrial organization and technology.) Thus, the worker would at last be paid in real wages.

A corollary of what might be termed the free "war economy" is that with the cessation of hostilities the expenses of government are reduced. That is, the Government ceases to siphon goods off the market, except for necessary expenses, and a good portion of the taxes go toward the liquidation of the national debt. The burden of servicing this debt is correspondingly reduced.

This process of returning to a normal and factual way of living characterized our economy after World War I. Bond prices fell, but money rose in value, so that even those who lost some of their savings profited by the greater purchasing power of the dollars they earned or the dollars they received for their bonds.

IV

The present conflict between the Treasury and the FRB is really the issue of whether the honest method of conducting a war economy shall prevail or the dishonest one that stems from Socialism. If the Treasury prevails, the country will be pushed that much faster into the slave-pattern for which it has been preparing these past twenty years. If Congress supports the Federal Reserve Board, the descent can be reversed.

To repeat, inflation cannot be entirely prevented during war. There is a shortage of goods, and nothing can be done about that, war being what it is. But, inflation is not caused by a shortage of goods only; a concomitant cause is the increase in the amount of money or purchasing power. War does not necessarily bring on either a larger fund of greenbacks or credit dollars; the first must be printed and the larger must be authorized, and only the Administration can do either. That's exactly what the Administration is doing now.

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The influx of credit dollars, or any other kind of dollars, pushes prices up faster than the war-shortages alone could do. This causes unrest among the housewives, and, to assuage their sense of hurt, the Government throws the blame on the housewives themselves. The housewives are bidding too much for meat and lipsticks. They must not do that. Nor must the butchers and lipstick-makers accept what the housewives offer. Both are unpatriotic, and a law must be passed to prevent such reprehensible behavior.

So, there are fixed prices, priorities, allocations, compulsion and, of course, enforcement agencies. Also, "black" markets. None of which would be necessary if the Government stopped creating money out of nothing -- if it stopped "supporting" its bonds. True, prices would go up because of the war-created shortages but they would not go up as rapidly, nor reach the same heights. More important, the freedom of which we are so proud, and for which we are constantly fighting, would be preserved.

V

That is what the FRB, consciously or not, is fighting for. It may be that, as bankers, they are more conscious of the threat to their own existence involved in this "support" scheme. Regardless of such motives, the banks are inadvertently fighting the battle of freedom. For, it so happens that whatever impels any segment of Society to oppose the encroachment of government on its freedom of action, in so doing it serves Society as a whole. Nobody can be free at the expense of another. Society is so integrated that restrictions placed upon any part of it impinge on the freedom of its contiguous parts; contrariwise, the freer the banks the more can they help their customers to act as freemen.

At bottom, then, the struggle of the FRB and the Treasury involves questions of social and political importance that far transcend the technical issue. It is the constant struggle between Society and the State.

The theory of representative government is that the interests of Society are entrusted to its agents, whose business it is to see that these interests are protected from the power of the State. In pursuance of that theory, Congress should see to it that the issue brought up by the Federal Reserve Board shall be decided in its favor. Put the bonds on the open market where they will find their true value, and if the citizens pass them up, increase the interest rates. Let's not have more counterfeit money -- and more counterfeit freedom.

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Not Merely Gossip *A Supplement to* Human Events Vol. VIII, No. 7

By Frank C. Hanighen February 14, 1951

HOOVER AND EISENHOWER: When the former President visited Mr. Truman last week, few suspected that the interview (initiated by Truman) concealed an attempt to divert Mr. Hoover from his present foreign-policy crusade. Officially, the meeting was concerned with famine relief for India; Mr. Truman wanted Hoover's advice on the matter. Quite possibly that was the only intent of the President.

However, we learn from reliable sources that White House advisors were seeking to get Mr. Hoover out of the country, to interrupt his active participation in the Great Debate over foreign policy. And they persuaded Mr. Truman to ask the former President to go to India to investigate food conditions. Whether Mr. Hoover saw the trap or not, he declined the suggestion saying that all relevant data for reaching a decision on Indian relief reposed in the Department of Agriculture. This episode is significant because it shows that the Administration remains troubled by the influence of Hoover's speeches on the people. Even after the Eisenhower report, the Hoover utterances carry weight -- in large part because no one can accuse the former President of political ambitions.

In quite a different position is General Eisenhower. He is known to have presidential ambitions. He has let himself be used by the Administration, and unless he has an unexpected change of view, he will remain its "captive". Some Republicans who back Eisenhower for 1952 console themselves by saying that, if things go well in Europe, then the General will prove irresistible -- and independent -- politically. However, if the European tension does ease, there is no guarantee that the President will not replace the General with some other military leader who would stand to reap the glory. On the other hand, if things go badly over there -- and even the most optimistic observers concede that the Western European military situation is precarious -- then the Eisenhower fortunes may be ruined.

And now there's gossip that Truman may retire in '52 and offer the Democratic nomination to the General. Be that as it may. Those GOP figures who have backed Eisenhower seem to be realizing that they have bought (no offence to the General) a pig in a poke, and are exclaiming that the General should declare now whether he is a Democrat or Republican.

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PRICE CONTROL: Behind the reassuring attitude of price control agencies, busy planners (who are ur-planners of the real totalitarian stripe) are laying a strategy for the complete regimentation of agriculture.

One of their first moves contemplated is a ceiling on raw cotton, a measure which was never even attempted during World War II. If this cotton ceiling goes through, it will probably put the cotton exchanges out of business. In any case, the planners will have established the principle -- and the initial organization -- of price control.

There will, of course, be other steps to abolish the free market. The bureaucrats will launch their attack on the middle-men -- on retailers, wholesalers, brokers, commodity exchanges, etc. -- with all the old familiar demagogic epithets. Then, swinging into action with real price pinches that hurt, the bureaucrats will abolish the free market. With this out of the way, they will then be in a position to turn on the producers of primary products -- on cotton and grain farmers, and on stock raisers -- and subject them to all the controls which only planners have the ingenuity to contrive. If successful in these efforts, the planners will then rule

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over an agriculture as closely controlled -- from top to bottom -- as Mr. Brannan never dared hope for during his interesting meditations of the past two years.

The above is no nightmare out of the dreams of a liverish free enterpriser. Reliable sources relay to us information about it, from behind the closed doors of Executive offices and the cocktail salons of the planning class. For many of the brethren who retreated, licking their wounds, from the famous OPA fight of 1946, are now back in Washington, determined to pursue their strategy to the ultimate objective which they failed to reach during the past war: liquidation of what they call the "kulak" class.

The word has been passed, we understand, that this time ("This is it, boys") in addition to the now imminent "ceiling on the raw" (that is, ceiling on raw cotton), there will be "ceilings on the hoof", that is on the price of livestock at the farm. These were tried during World War II but failed. The talk among the planners is that the only way to police livestock is to start at the beginning and police every transaction from the farm to the counter. These are but two of the extreme measures which, we are assured, the OPS bureaucrats will seek to enforce.

But the magnitude of the task has already inspired skeptics to predict that the enforcement troops needed will exceed in numbers the soldiers in Eisenhower's projected European army. And, outside the office buildings which house the OPS, we have found few who think the effort will produce anything less than chaos.

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BUDGET CUT BEFORE NEW TAXES: There is growing hope that Mr. Truman's budget of $71.6 billion for next year will suffer a cut, despite his dare to Congress to use the pruning knife on it. Economizers dream of cuts up to possibly $10 billion, if a substantial group of economy-minded Senators hold their seeming majority in the Senate now. A coalition of Republicans and Southern Democrats are definitely committed to heavy cutting. The budget will surely not be passed in its form now, and it looks equally certain that it will be disposed of before Congress acts on new taxes.

Chairman George, of the Senate Finance Committee, which handles tax bills, says the Truman budget can be "cut at least 10 per cent". Joining George are Cain (R., Wash.), calling for cuts up to $10 billion; Byrd (D., Va.), who wants to cut up to $9 billion, and Senators Bridges, Ferguson, Douglas and Humphrey, who believe cuts from $2 billion up to $9 billion are possible. The fact that the latter Senator, darling of the Leftists, talks of reducing expenditures by $2,500,000 is significant.

The pruning knife is not being aimed only at non-military items; those who have gone over spending proposals for the Armed Services say that over $2 billion in "duplications and sheer waste" can be removed without impairment of defense needs.

The sharpest rebuff for Mr. Truman is the decision of the two tax committees to write a single all-embracing tax bill, and bring it up after the spending bills are out of the way. This would negate any move to increase the second tax bill to a greater sum than $6.5 billion, either as new revenue "needs", or to offset cuts in the "quickie" tax bill for $10 billion. Rejection of the "quickie" bill puts the issue of $16.5 billion in new taxes squarely before Congress. If there should develop sharp budget trimming, it is quite certain the sum in new taxes asked by Mr. Truman will be substantially reduced. Even at that, the tax increases will be painful, and put bracket rates back to about the peak wartime levels.

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PACIFIC INSTITUTE RECORDS SEIZED: The Senate Judiciary Committee, long known for leisurely movement, is carefully surveying the more than 300,000 documents -- the letter files and records of the Institute of Pacific Relations -- which have been

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taken into custody by subpoena. The file cases, consisting of 72 tiers of metal containers, were seized in a barn on a farm 12 miles from Lee, Mass., said to be owned by Edward Clark Carter, a former Institute chief. They were brought to Washington in heavy military trucks -- how many the Committee doesn't say -- and put under a 24-hour guard. Seizure was made under recently granted powers of the Committee to inquire into all phases of Communist activity.

There are strong indications that the Committee, without formal announcement, has reopened the whole investigation of McCarthy's charges concerning Communists in the State Department, and that the seized files will figure strongly in the inquiry. Pertinent features are expected to reveal in detail what McCarthy called "the 1943 'smear' of Chiang Kai-shek", and the claim that China's "reds" were only a part of "a great agrarian movement". Yet to be revealed by the Committee is whether the records throw new light on the Amerasia case. It is known the Committee is interested in this case, and that its careful moves are designed to uncover all angles of it. The seized records go back to the Institute's formation in 1925, and give a continuous record since then.

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NIMITZ COMMISSION: Attorney and chief director of activities of the new Commission on Internal Security, headed by Admiral Nimitz, is to be Edward Morgan, who served in this capacity for the late Tydings Committee in its "whitewash job" of the State Department. While the Senate does not have to confirm Morgan, members of the Senate are intensely interested in what the new Commission is to do. Admiral Nimitz is quoted as having said that it is being set up and run by Donald S. Dawson, a Truman aide just now in the limelight as a result of the report of the Senate Banking Committee on "undue influences" in RFC lending. The question uppermost in senatorial minds is whether Nimitz is being used as a "front" in a Truman move to protect Communists and fellow-traveller "liberals" hidden in the Administration.

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RFC: Three of the five members of RFC who have been nominated by Mr. Truman for reappointment will not be favorably recommended by the Senate Banking Committee. They are William E. Willett, Walter L. Dunham and C. Edward Rowe, all of whom were given critical mention in the Committee's recent report dealing with undue influence in making RFC loans. Truman's reference to the report as "asinine" is strengthening the move in the Committee to restore RFC to one-man control, as in the days of Jesse Jones, and to oust all members of the present board. The Committee has turned thumbs down on a proposal to put RFC under the Department of Commerce.

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REVISIONISM: Last summer, we offered to subscribers free copies of Rauch on Roosevelt by Harry Elmer Barnes, and many responded. We have now received a stock of copies of The Struggle Against the Historical Blackout (Seventh revised and enlarged Edition) by Dr. Barnes, copies of which we will send free to our subscribers -- as long as they last. (We can also supply copies of Rauch on Roosevelt.)

This new, 85-page pamphlet contains much fresh material and play-by-play accounts of the fights over the Morgenstern, Beard and William Henry Chamberlain (America's Second Crusade) revisionist works, not to mention a great deal of interesting corollary information. There is mention of two excellent brochures, too rarely recalled nowadays: John H. Sachs' Hatchet Men, and John T. Flynn's The Smear Terror.

Dr. Barnes summarizes the significance of Revisionism in connection with the Second World War, as follows: "It is not merely an exercise in intellectual integrity and public sanitation; it involves the exposure of policies and methods which threaten to undermine the American way of life, libertarianism, and the possibility of building plenty and security on the basis of our impressive technological equipment of the mid-Twentieth Century."

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Book Events

Europe Between The Acts by R. G. Waldeck. New York: Doubleday and Company. $3.50.
Reviewed by W. H. Chamberlin.

Countess Waldeck has written a smart, sophisticated book about her impressions of postwar Europe. It is nicely balanced between the serious and the frivolous and is well spiced with epigrams and racy Anglo-American slang. An excellent piece of political reporting on the Vatican and the position of leadership which it has inherited in the struggle against Communism in Italy and in Europe is balanced with a Roman street observation like the following:

"Men in Italy were plentiful and evidently full of beans. They would look at you as if to say: 'Madame, how about it? You will forever bless this day.'"

She found in Britain that queues had become a way of life and that "an over-all listlessness and languor" was in contradiction to "over-all appeals to work or else". After sampling a familiar specimen of British austerity diet, croquettes which "had to be eaten to be believed; they must have undergone a desavoring process", she remarked that it was very clever of Sir Stafford Cripps to eat raw carrots.

Finding some beige red-edged postcards in the spruce surroundings of the Hotel Metropole, in Brussels, she scribbled invitations to a number of British friends: "Come to Brussels and see for yourself how far one can get by not being austere."

This probably inspired Laborites to fury and Conservatives to wistful longing. The author backs up her point by an excellent piece of economic analysis, showing that Belgium achieved its enviable position as easily the most prosperous of the nations involved in the war by putting its trust in free enterprise.

Instead of imposing a program of virtuous levelling austerity, killing the incentive to work hard and efficiently, the Belgian authorities stocked up with consumer goods, abolished rationing and let the forces of natural recovery assert themselves. The results are impressive: a booming export trade, crowded restaurants, cafes and shops, a minimum of dependence on Marshall Plan aid. As Countess Waldeck says: "The Belgian miracle is the triumph of economic liberalism."

She also finds words of deserved praise for another European small country which put its faith in true liberalism, not of the statist brand. Her chapter on Switzerland is entitled, "So lucky -- and so wise."

Coming to Germany, Countess Waldeck finds American policy an inconsistent mixture of vengeance and generosity. She is a little grudging in her recognition of the amazing economic recovery of West Germany and sees little strength and stability in the obvious desire of the Germans to get back to middle-class ways and comforts. The German bourgeois restoration, she thinks, will collapse when faced by an economic crisis or a serious Communist onslaught.

She stresses injustices and absurdities of denazification, war crimes trials and dismantling of German industry, although she fails to bring out the point that there has been vastly more dismantling in the Soviet Zone than in West Germany. She believes that "we didn't succeed in denazifying the Germans, but we did succeed in making them anti-militarist".

Countess Waldeck is perhaps a little too optimistic about the prospective French attitude and too pessimistic about the German attitude when and if the hour of supreme challenge strikes. But she would be the first to admit that this is no time for supposedly infallible prophets. It is a time of great uncertainty, for Europe as for the entire world. In the meantime she seems to have caught effectively many of the moods of modern Europe and she conveys a good deal of significant information in a style that is light and snappy and easy to read.

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European Supplement *to* Human Events Vol. VIII, No. 7

By Bertrand de Jouvenel U.S.A. -- February, 1951

TWO REPORTS ON THE STATE OF THE UNION: Exhibit A (from Agent GX-17 to the Kremlin): "Immediately upon my landing, I found striking evidence of the death throes of Capitalism. Not only had the trains ceased to operate but the President himself acknowledged the historic meaning of the strike by saying that the union leaders behaved 'like a bunch of Russians'. As this cannot possibly mean that they behaved as they would in the Soviet Union, where of course a strike is inconceivable, it must mean that the unions acted out of allegiance to the fatherland of all proletarians, the U.S.S.R. Our Tass agency failed to bring this out: I suggest the bureau chief be recalled for Marxist-Leninist re-education.

"Indeed so grave is the situation of the American pluto-Democracy that the policy leader of the opposition party, on the same day, accused the President of 'trying to create a dictatorship', the characteristic last resort of Capitalism at bay. The President is shedding the last pretense of so-called liberalism. He has just called a report by a subcommittee of the Senate 'asinine', which is obviously, as any Russian can tell from experience, a preface to the arrest of the members of the subcommittee, who will presumably be conveyed to work-camps in Alaska.

"My authority is none other than the New York Times of February 9, where the statements from President Truman and Senator Taft are to be found respectively on columns 8, 7 and 6 of the first page. Long live Stalin!"

Exhibit B (from Sir John Diplomat to the Foreign Office): "I can only repeat and emphasize the substance of my former reports: the American nation displays striking unity of spirit and purpose. Awareness of the Russian peril is universal and perhaps not least among those who awakened to it somewhat belatedly. The losses suffered in Korea are borne with exemplary fortitude. The sacrifices demanded of the nation in the heyday of prosperity are accepted without a murmur. There are, to be sure, healthy differences as to means, and these are expressed with a verbal vigor which ever surprises newcomers to our Washington mission. This I understand to be called locally 'punch-swapping', which is American for controversy.

"The differences as to means may be subsumed under three headings: the Asian front, the European front, the internal front. On the first score, all agree that Soviet expansion in Asia cannot be stopped without Asian allies. The difference centers on appraisal of Chiang's potential popularity. Is he capable, given sufficient means, of regaining wide support in China? Then he should be backed. Or has he so irretrievably lost credit with the Chinese people that he can only be a liability to American policy?

"As to the European front, all agree that continental Western Europe should be defended by American arms. There is, however, factual disagreement as to the effectiveness of direct land defense in the immediate or near future. Those who see no such possibility fear that the attempt to build up forces there may provoke the very aggression it is meant to ward off, and may lead to the occupation of the area and the loss of the American divisions hastily ventured. They would rather protect Europe indirectly by the threat of retaliation with atom bombs, should the Russians overstep the bounds. It seems that the Administration, committed to the setting up of direct defense, is not unaware of the value of indirect defense; some would have it that the series of atomic explosions in Nevada had for their chief object to warn Moscow of the danger of an armed interference with the local build-up in Western Europe. So the actual disagreement seems to be mostly a matter of proportion and time sequence.

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"Finally, as to the internal front, all agree that preparedness is an absolute priority. The resumption of war powers by the Administration therefore is not opposed. But it gives rise to considerable worry, there being a difference between allowing them for a short period of all-out war and installing them for the duration of what might conceivably be a long period of tension. In the first case structures can be pulled down when they have ceased to be necessary. In the second they may harden into permanence."

Of my two forgeries, Exhibit A is of course a joke, while Exhibit B about sums up my impression of the immediate situation. Underlying the unanimous determination of the American people, there is, however, a troubled mental attitude, which I would describe as chronic amazement.

* * *

THE AMAZED AMERICAN: The other day I attended an open session of the House Committee on Foreign Affairs. That body was hearing authors of pending bills, and a young Congressman was speaking with great emotion of what he called "the Voice of America's failure to carry the American message". He was extremely likeable and obviously most profoundly perturbed. As I listened to him, it seemed to me that he symbolized American anxiety.

The type of society which Americans built on virgin soil, unencumbered by previous institutions, has generally been assumed to be that towards which other societies would tend, as they gradually freed themselves from the shackles of custom and the weight of authority. Indeed, Tocqueville, when he discovered America more than a century ago, had little doubt that he was getting a preview of the Europe to come. Americans have, so it seems to me, harbored little doubt as to their blazing a trail which others would follow. It must then be profoundly perturbing to find Europe reluctant and Asia hostile to the American way of life.

When President Wilson welcomed the Russian Revolution and when he contributed to the downfall of the Hapsburg and Hohenzollern dynasties, he trusted that this decapitation of the ancient States would lead to their peoples moving towards the American model. Certainly, the last thing he imagined was that the breaking down of traditional dynasties and aristocracies would make way for Hitler and Stalin. These latter phenomena cannot be explained away as a relapse of nations untutored in freedom, for the new dominations were essentially different from the old. Moreover, tyranny has been offered and accepted by many as "the hope of the world", the unfree society of Russia becoming an alternative vision of the future, competing successfully with the vision offered by America. The desperate call for more and better American propaganda is an expression of dismay in face of this situation.

The world's failure to walk the American road not only distresses Americans; it also creates a double peril for the U.S.: (1) an external peril which calls for preparedness, (2) an internal peril, which arises from preparedness.

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THE COST OF PREPAREDNESS: The cost of war to nations is not to be counted in years of war, losses of lives and destruction of wealth. Actual warfare is not the whole story. Nations which have lived under the threat of conflict have had to develop institutions adequate to their peril. Liberals, and especially American liberals, have been prone to represent political and social structures they dislike as causing wars. While there is some truth in that view, there is far more truth in the statement that these structures are consequences of ever-impending war. The absence of any dangerous neighbor may well have been a major factor in the development of American institutions up to the First World War. Should preparedness become a major preoccupation the effect on institutions may be very great indeed.

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The American Republic is embarking upon its third military effort within a lifetime. The two former efforts were conceived and executed as temporary. The nation intervened in two world conflicts already in progress. Prior to its intervention it feared nothing; as a result of its intervention it expected complete safety, not only for itself but for the world at large. During its intervention, it turned a large part of its activities to defeating its appointed enemy; as soon as victory was achieved, the nation reverted in toto to its peacetime pursuits.

The third effort is being instinctively dealt with in the same mood. The nation braces itself for a great exertion which is thought of as a short-term effort -- but without warrant. First of all, while the major flare-up may well occur this year, it might also remain impending for a number of years, imposing upon the nation the strain of a prolonged military effort to deal with minor clashes and remain braced for the main event. Secondly, even should war be prompt and victory swift, the aftermath of such a conflict will call for a task of organization and policing which this time the U.S. shall have to assume. These duties were left largely to Britain and France after the first World War, and their falling-out over the way to perform the task was one of the factors in the second outbreak. The tasks were left in part to the Russians after the second war, with dire results. The American Republic would be very unwise to leave it to anyone else, should the occasion arise. All this means that the U.S. is in the military business for a long time, in any case.

Therefore the measures now being taken or proposed to further the war effort cannot safely be regarded as of a very temporary character. The structures built up to channel a part of the nation's efforts into the military pool should not be designed for the short term. The choice of such measures and structures is therefore of far greater consequence to the nation's future than in the two last instances. A burden which has to be carried only a short way can be shouldered almost any way. But if it is to be carried a longer distance, then you have to prepare for it very carefully.

Two illustrations will bring home the difference. Increased activities due to the war effort cause an increase of incomes coupled with a decrease in the supply of civilian goods; an excess of incomes ensues with inevitable inflation. This excess can be shored up by quantitative controls during a short period of open warfare with the help of the moral imperative of national peril. However, in the absence of the fillip to the public spirit administered by the clear and present danger and if the system is kept up for a long time, the excess incomes gradually seep back into the market. If they are precluded from lifting the price of goods, they will sweep the merchandise out of the legitimate into the black market. This not only does cause social unrest, it also creates a habit of law-breaking.

Or again it is admissible during a short war effort to license producers and allocate materials to them on the basis of previous consumption. But if this is kept up over some time, it constitutes a disastrous privilege for the Ins and a deadening obstacle to new enterprise.

In view of the inherent dangers to the American system of any other method of channelling efforts in the military pool, one cannot help but applaud the Administration's declared intention of doing the job by taxation.

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THE EUROPEAN PARTNER: The more one dwells upon the harmfulness of an indispensable military effort, the more one finds oneself driven back to the idea that the U.S. must wish to shift part of the burden on Western Europe. Western Europe is virtually capable of doing a large part of the job. Here, however, one comes up against a contradiction.

If too much is asked too quickly of European economies, still afflicted with a low productivity, they will be driven back into war collectivism from which they are

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barely emerging. They are emerging with such joy over their liberation (I think of the Continental countries), that the prospect of turning the clock back in this respect is one of the major factors of their reluctance to massive rearmament. With good management they should be able both to make a contribution to the common effort and also to advance somewhat on the road of the free economy.

With regard to this last point, my friend Milton Friedmann, the Chicago economist, at the end of a six-month stay in France made cogent remarks. It is no wonder, he said, that European workers are discontented and seek political remedies for a low and static standard of life: for they can hope for no improvement from an insufficiently competitive economy (insufficiently competitive because there are no new entrants). Furthermore it is only natural that the most capable of their number should turn to political agitation and leadership since they have not the least chance of rising to the responsible position of employer. It shocked him to find that while sons of workers, through the channels of education, do rise to eminence in politics, in the civil service and in the professions, workers never or almost never become leaders of industry. Thus, he said, the business class is never stimulated by new competitors or enriched by new energies.

Not that the workers lack the capacity. They lack the opportunity, for they cannot possibly raise the initial capital. They are desirous of becoming entrepreneurs but in view of the scant means they can at best assemble, all they ever become is small shopkeepers in their middle age. This has a great drawback in that the moral value of these people, who have striven to rise, makes their interests respectable; and in order to protect these interests, legislation against chain stores had been adopted already before the war. These measures were, of course, detrimental to competition in commerce and to lowering the cost of living. How much better it would be to allow these energies leeway in the productive tasks. But these potential capitalists cannot find the capital.

As I discussed these findings with Representative Lawrence H. Smith of Wisconsin, he made a suggestion: "Why not use the American funds, appropriated for the rehabilitation of European economy, to provide small quantities of venture capital for these men who want to raise themselves out of the wage-earning condition?" This member of Congress underlined that such a plan would meet the criterion Congress has established in the matter of help to Europe: "Does this set Europe on the road to a free economy?" It would, he indicated, have to be tried out first on a small scale, in a minor territorial unit of France, or of Italy, etc. Small sums would then be involved. In our conversation it was suggested that such an organization as the Ford Foundation might well try it out. The European governments could not fail to welcome it, since it would be proposed by Mr. Hoffman, to whom they are deeply indebted. What more fitting than that an institution endowed by the famous individualist whose rise is a great part of the American legend should help start others on careers of independent responsibility?

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A TIME FOR THINKING: If I had to sum up in one word my chief impression of America today, I would say that it is "thinking". I have found everyone, at every social and educational level, engaged in pondering the position and the responsibilities of the American Republic. I feel there is at this moment a considerable effort, in every individual mind, to weigh familiar beliefs and prejudices in the scales of historic reality. The people more or less clearly realize that within a lifetime the U.S. has travelled a road from which there is no return. From a carefree country, whose government used to rule at the modest price of seven dollars per head, this has changed into an imperial country, burdened with the cares of an empire. In the words of Thomas Wolfe, "You can't go home again". The Americans are struggling to make out where they are going from here.

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